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Evaluation of Financial Management Systems Questionnaire And Related Documents for Use by Grantee and IC Staff

December 2, 1998

FINANCIAL QUESTIONNAIRE: EVALUATION OF FINANCIAL MANAGEMENT SYSTEMS

Financial management system requirements for grantee organizations of the National Institutes of Health (NIH) are addressed in the NIH Grants Policy Statement (NIHGPS) and **Title 45 Code of Federal Regulations (CFR) Part 74.21**. Grantee organizations are expected to have certain systems, policies, and procedures in place for managing their own funds, equipment, and personnel. A system of clear roles and responsibilities should be delineated in each grantee organization, and should include the financial management systems. These systems include, but are not limited to, accounting, internal controls, and budgetary controls. Demonstration of a grantee's management capabilities is one of the evaluative criteria used in the administrative review process prior to issuance of an award. To encourage uniformity in the review of a grantee's financial management system, the NIH has developed a questionnaire entitled "Evaluation of Financial Management Systems." The questionnaire is a tool designed to assist both grantee and NIH staff in assessing the grantee's management capabilities. Concerns related to a grantee organization's management capabilities may result in the determination to withhold an award, or issuance of an award with special terms and conditions in accordance with **45 CFR 74.14**.

The questionnaire and related information follow.

EVALUATION OF FINANCIAL MANAGEMENT SYSTEMS (Abbreviated Questionnaire)*			
	YES	NO	COMMENT
A. ACCOUNTING SYSTEM:			
1. Is there a chart of accounts?			
2. Does the accounting system include a project cost ledger providing for the recording of expenditures for each program by required budget cost categories?			
3. How do employees account for their time and effort? Please explain.			
B. FINANCIAL CAPABILITY:			
1. Does the organization prepare financial statements at least annually? (Provide a copy of latest Balance Sheet and Income Statement.)			
2. Has the organization established line(s) of credit? If so, identify source and amount.			
C. BUDGETARY CONTROLS:			
1. Are there budgetary controls in effect (e.g. comparison of budget with actual expenditures on a monthly basis) to preclude drawing down federal funds in excess of:			
a. Total funds authorized on the			

Notice of Grant Award;			
b. Total funds available for any cost category if restricted on the Notice of Grant Award.			
D. INTERNAL CONTROLS			
1. What safeguards has the grantee instituted to ensure adequate internal controls in the company? Please describe. Some examples might be:			
a. Accounting entries are supported by appropriate documentation; e.g. purchase orders and vouchers.			
b. Separation of responsibility in the receipt, payment, and recording of cash.			
c. Other			

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* For use primarily with new for-profit grantees (including SBIR/STTR organizations) to determine major weaknesses in financial management systems. Responses may require that an in-depth review be performed.

EVALUATION OF FINANCIAL MANAGEMENT SYSTEMS
(Abbreviated Questionnaire)

FOR AWARDING COMPONENT INFORMATION ONLY

Provided below are some suggestions for the resolution of issues that may result from a negative answer to any of the questions on this Questionnaire. Definitions for items in bold print are attached.

Section A. Accounting System:

If the organization does not have a **chart of accounts**, then most likely the answers to the other questions in this section will also be "no". The organization needs to incorporate an accounting system that will track costs between direct and indirect costs (**general ledger**) as well as direct costs by project (**project ledger**). The organization will also need to establish a time and effort reporting system to track personnel costs by project. It is industry practice to require daily reporting of effort expended on individual projects or activities. This should be reported on an hourly basis, or in increments of an hour.

Section B. Financial Capability:

If the organization does not prepare financial statements at least annually, then request that they provide, at a minimum, a current internal **balance sheet** and **income statement**. The balance sheet items are used to compute the **current ratio**.

An organization does not necessarily need to have an established line of credit in order to be considered financially stable. However, any further action by grants management would be contingent upon the review of the information contained in the balance sheet and income statement.

Section C. Budgetary Controls:

The organization should establish a system to track expenditures against budget and/or funded amount.

Section D. Internal Controls:

The organization should describe how they plan to safeguard cash receipts and disbursements. One person should not have control over all aspects of the accounting system; for example, signing checks and making deposits. Exceptions should be documented in the grant file only after consultation with DFAS.

GRANTS MANAGEMENT INFORMATION: If the specialist reviewing the information provided in response to these questions requires any further assistance, the Division of Financial Advisory Services (DFAS) may be contacted on 496-4494. The address for DFAS is 6100/6B05, MSC 7540.

**FINANCIAL QUESTIONNAIRE:
EVALUATION OF FINANCIAL MANAGEMENT SYSTEMS**

DESCRIPTION OF MAJOR HEADINGS

Section A. Accounting System:

The grantee organization needs to incorporate an accounting system that will track costs between direct and indirect costs (**general ledger**) as well as direct costs by project (**project ledger**). The grantee will also need to establish a **time and effort reporting system** to track personnel costs by project. It is industry practice to require daily reporting of effort expended on individual projects or activities. This should be reported on an hourly basis, or in increments of an hour.

Section B. Financial Capability:

The grantee should prepare financial statements at least annually. At a minimum, current internal **balance sheet** and **income statements** are required. The balance sheet items are used to compute the **current ratio**.

Section C. Budgetary Controls:

The grantee should establish a system to track expenditures against budget and/or funded amounts.

Section D. Internal Controls:

The grantee should describe a plan to safeguard cash receipts and disbursements. One person should not have control over all aspects of the accounting system; for example, signing checks and making deposits as well.

**FINANCIAL QUESTIONNAIRE:
EVALUATION OF FINANCIAL MANAGEMENT SYSTEMS**

DEFINITIONS

1. **Chart of Accounts** – This is a list of a grantee organization's accounts identified by a specific number.
2. **Balance Sheet** – This is a statement of financial position of a grantee disclosing the assets, liabilities, and ownership at a given point in time.
3. **Income Statement** – This is a summary of the revenue and expenses of a grantee for a specified period of time, usually for an accounting year.
4. **General Ledger** – This summarizes all transactions affecting assets, liabilities, equity and operating revenue and expenses of a grantee.
5. **Project Ledger** – This is a subsidiary ledger containing data by cost element (for example,

labor, materials, equipment, travel) for each project.

6. **Current Ratio** – This is a ratio computed by dividing current assets by current liabilities as reported on the balance sheet.

Chart of Accounts

ACCOUNT

CODE

TITLE

Current Assets

1000 Cash
1020 Accounts Receivable
1040 Inventory - Work in Progress
1060 Prepayments

Property, Plant, & Equipment

1100 Equipment - Lab
1101 Accumulated Depreciation-Lab Equip
1110 Equipment - Office
1111 Accumulated Depreciation-Office Equip
1200 Leasehold Improvements
1201 Accumulated Amortization-Leasehold Improvement

Other Assets

1800 Deposits

Current Liabilities

2000 Current Note Payable
2010 Accounts Payable
2030 Accrued Wages and Payroll Taxes Withheld

Long Term Liabilities

2100 Note Payable

Equity

3000 Common Stock
3001 Retained Earnings

Revenue

4000 Commercial Sales
4010 Grant Revenue
4020 Interest Income

Direct Program Costs

5000 Direct Labor
5100 Consultants
5200 Equipment
5300 Materials and Supplies
5400 Travel
5500 Other/Misc
5600 Consortium/Contractual

Fringe Benefits

6010 Vacation

6015 Holidays
6020 Sick Leave
6025 Payroll Taxes
6030 401(k) Plan
6035 Group Insurance

Overhead

7000 Overhead Labor
7110 Amortization-Leasehold Improvements
7120 Depreciation-Lab Equipment
7130 Depreciation-Office Equipment
7140 Rent
7150 Utilities
7160 Telephone
7170 Equipment Rental
7180 Expendable Equipment
7190 Repairs & Maintenance
7200 General Lab Supplies
7210 Travel
7220 Consultants
7230 Waste Diposal
7240 Training

G&A

8000 G&A Labor
8010 Amortization-Leasehold Improvements
8015 Depreciation-Office Equipment
8020 Rent
8030 Utilities
8040 Telephone
8050 Equipment Rental
8060 Expendable Equipment
8070 Repairs & Maintenance
8080 Office Supplies
8090 Travel
8100 Consultants
8110 Legal & Accounting
8120 Liability Insurance
8130 Licenses
8140 Dues & Subscriptions
8150 Postage
8160 Recruitment/Relocation

8800 IR&D Labor

Unallowables

9000 Interest Expense
9010 Contributions

[Time Sheet](#) example in [Adobe Acrobat](#) (PDF) format.

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Posting: 11/19/2001
Webmaster